

## Focus: Retirement Plan Services

Comparing retirement plans: 2019



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**Choose a plan that meets  
the needs of your employees  
and your organization.**

# Retirement plan features

Terms in purple are defined in glossary

	Small businesses		Not-for-profit and education organizations
	SEP IRA	SIMPLE IRA	403(b)
<b>Plan setup and operation</b>			
<b>Who can establish this plan type</b>	Any employer	Any small-business employer (100 or fewer employees)	501(c)(3) organizations, churches and educational institutions (private and public)
<b>Eligibility requirements</b>	Any employee who has been employed in three of the last five years, is at least age 21 and has earned at least \$600	Any employee who has earned at least \$5,000 in any of the prior two years and is expected to earn at least \$5,000 in the current year	Generally, any employee ( <i>universal availability</i> rule), although statutory exclusions can apply
<b>Deadline to establish</b>	Tax-filing deadline of employer; plan year is typically calendar year	Between January 1 and October 1; plan year is always calendar year <sup>1</sup>	Before first deferral contribution; plan year can be calendar or fiscal year
<b>Plan setup</b>	IRAs must be established for all eligible employees	SIMPLE IRAs must be established for all eligible and/or participating employees	Qualified custodial accounts or annuity contracts required
<b>Investment decisions</b>	Participant	Participant	Participant
<b>Ongoing maintenance</b>	No annual filings or annual required disclosures from employer	Annual notice to eligible employees	Annual <b>Form 5500</b> filings, <sup>2</sup> annual notices for safe harbor contributions, <b>QDIAs</b> , <b>automatic enrollment</b> , as applicable
<b>Nondiscrimination testing</b>	Coverage and top-heavy benefit tests apply	Plan is deemed to meet all nondiscrimination tests	Coverage and only <b>ACP</b> benefits tests apply; if safe harbor requirements are met, plan is deemed to meet all nondiscrimination tests <sup>3</sup>
<b>Contributions</b>			
<b>Participant pretax contributions</b>	None, except for grandfathered SAR-SEPs (see IRS Publication 560)	\$13,000 \$3,000 catch-up if age 50 or older	\$19,000 \$6,000 catch-up if age 50 or older; qualified participants may have additional catch-up
<b>Participant after-tax contributions</b>	No	No	Available as <b>Roth option</b>
<b>Employer contributions<sup>4</sup></b>	Discretionary	Dollar-for-dollar match of up to 3% of compensation or 1% or 2% in no more than two of every five years; or 2% of compensation for all eligible employees	Discretionary, unless safe harbor applies (see table on page 4)
<b>Maximum contributions (employer and employee)<sup>4</sup></b>	Lesser of 25% of compensation or \$56,000	\$26,000 (combined employee and employer contributions) or \$32,000 (including age-based catch-up), subject to 3% employer match limit <sup>5</sup>	Lesser of 100% of compensation or \$56,000 (\$62,000 with age-based catch-up contributions)
<b>Distributions</b>			
<b>Participant loans</b>	No	No	Available
<b>Access to contributions</b>	<ul style="list-style-type: none"> <li>Distributions: immediate access</li> <li><b>Vesting</b>: 100% immediate</li> </ul>	<ul style="list-style-type: none"> <li>Distributions: immediate access</li> <li><b>Vesting</b>: 100% immediate</li> </ul>	<ul style="list-style-type: none"> <li>Distributions: restricted, subject to plan's terms</li> <li><b>Vesting</b>: 100% immediate for participant and, generally, for employer contributions</li> </ul>
<b>Benefit at retirement</b>	Account balance	Account balance	Account balance of custodial account; annuity

**Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.**

<sup>1</sup> May be established after October 1 for a new business formed after October 1 of the year in which the SIMPLE IRA plan is established.

<sup>2</sup> Filings required for not-for-profits subject to ERISA only; not applicable to churches or governmental employers.

<sup>3</sup> Discrimination testing not applicable to most churches or governmental employers.

<sup>4</sup> The 2019 compensation limit is \$280,000 when determining maximum contributions for all purposes, except when determining SIMPLE IRA matching contributions.

<sup>5</sup> To receive the maximum contribution, participants must have at least \$433,333 in annual earnings.

## Retirement plan features (continued)

401(k)	Profit-sharing/Money purchase	Defined benefit
Any employer except government entities	Any employer	Any employer
Generally, any employee who is at least age 21 and has completed a year of service, although statutory exclusions can apply	Generally, any employee who is at least age 21 and has completed a year of service, although statutory exclusions can apply	Generally, any employee who is at least age 21 and has completed a year of service, although statutory exclusions can apply
Before the last day of the fiscal (plan) year. However, participant deferrals cannot be made prior to the adoption date.*	The last day of the fiscal (plan) year	Tax-filing deadline of employer; plan year can be calendar or fiscal year
<b>Qualified trust</b> must be established (can be self-trusteed)	Qualified trust must be established (can be self-trusteed)	Qualified trust must be established (can be self-trusteed)
Participant	Participant and/or plan sponsor	Plan sponsor only
Annual Form 5500 filings, annual notices for safe harbor contributions, QDIAs, automatic enrollment, as applicable	Annual Form 5500 filings, annual notices for QDIAs, as applicable	Annual Form 5500 filings
Coverage and ACP, <b>ADP</b> and <b>top-heavy</b> benefit tests apply; if safe harbor requirements are met, plan is deemed to satisfy the ADP and ACP tests and may qualify for top-heavy exemption.	Coverage and benefit tests apply	Coverage and benefit tests apply
\$19,000 \$6,000 catch-up if age 50 or older	No	Not available
Available as Roth option	No	Available
Discretionary, unless safe harbor applies (see table on page 4)	Discretionary if profit-sharing plan; required if money purchase plan	Determined by actuarial formula
Lesser of 100% of compensation or \$56,000 (\$62,000 with age-based catch-up contribution)	Lesser of 100% of compensation or \$56,000 (up to 25% of compensation is deductible)	Determined by actuarial formula
Available	Available	Available
<ul style="list-style-type: none"> <li>• Distributions: restricted, subject to plan's terms</li> <li>• Vesting: 100% immediate for participant contributions; employer contributions subject to schedule, except as noted in the table on page 4</li> </ul>	<ul style="list-style-type: none"> <li>• Distributions: restricted, subject to plan's terms</li> <li>• Vesting: subject to schedule</li> </ul>	<ul style="list-style-type: none"> <li>• Distributions: restricted, subject to plan's terms</li> <li>• Vesting: subject to schedule</li> </ul>
Account balance	Account balance (annuity purchased by account balance if money purchase plan)	Annuity defined by plan's terms

**Choosing the right plan is important, so please consult your financial professional to discuss your options.**

\* Safe harbor 401(k) plans require an initial plan year of at least three months, making October 1 the effective deadline for a plan with a calendar fiscal year.

# Safe harbor options and glossary

## Safe harbor contribution options<sup>1</sup>

Plan	Matching contribution <sup>2</sup>	Nonelective contribution	Vesting	Notice requirement
<b>SIMPLE IRA</b> Safe harbor contribution is required	<ul style="list-style-type: none"> <li>Dollar-for-dollar match of up to 3% of compensation; 3% match may be reduced to 1% or 2% in no more than two out of every five years</li> </ul>	2% for all eligible employees	100% immediate	Before the 60-day election period begins (before the start of the next plan year)
<b>401(k) or 403(b)</b>	<ul style="list-style-type: none"> <li>Dollar-for-dollar match of up to 3% of compensation and a 50 cents-on-the-dollar match between 3% and 5% of compensation; or</li> <li>Dollar-for-dollar match of up to 4% of compensation; or</li> <li>Other comparable formula</li> </ul>	3% for all eligible employees	100% immediate	No earlier than 90 days and no later than 30 days before the beginning of each plan year
<b>401(k) or 403(b)</b> With qualified automatic contribution arrangement (QACA), safe harbor contribution is required	<ul style="list-style-type: none"> <li>Dollar-for-dollar match of up to 1% of compensation and a 50 cents-on-the-dollar match between 1% and 6% of compensation; or</li> <li>Dollar-for-dollar match of up to 3.5% of compensation; or</li> <li>Other comparable formula</li> </ul>	3% for all eligible employees	May be subject to two-year schedule	No earlier than 90 days and no later than 30 days before the beginning of each plan year

<sup>1</sup> A safe harbor 401(k) plan that meets the safe harbor contribution requirements above is deemed to satisfy the ADP and ACP tests and may qualify for a top-heavy exemption. For a SIMPLE IRA and for a 401(k) or 403(b) plan that also adopts the qualified automatic enrollment feature, either the match or nonelective contribution must be made (as described in the first and third rows above). For a SIMPLE IRA, no additional contributions can be made.

<sup>2</sup> The 2019 compensation limit is \$280,000 when determining maximum contributions for all purposes, except when determining SIMPLE IRA matching contributions.

## Glossary

**Automatic enrollment:** An optional feature a plan may adopt that accepts employee contributions. Employees are automatically enrolled in the plan instead of having to sign up to participate. Auto-enroll plans typically involve selection (by the employer) of a default investment (in which all contributions are automatically invested; see QDIA) and a default deferral rate, which could increase gradually over time. The “qualified” automatic enrollment feature requires a 3% minimum that is automatically increased by an additional percentage point each year, until the automatic deferral rate is 6%. Employees can opt out or increase or reduce their savings rate or change their investment mix at any time.

**Form 5500:** An annual report that ERISA plans must file with the Department of Labor to show plan coverage and financial information. Large plans (generally 100 or more participants) must engage an independent auditor each year to prepare a financial statement as part of the Form 5500 filing.

**Nondiscrimination testing:** The following are brief definitions of several key annual nondiscrimination tests that may apply to a plan and be deemed to be met if a 401(k) or 403(b) plan adopts a safe harbor contribution feature (see table above). Other tests (not described here) include coverage and maximum limits, which generally apply to all defined contribution (even those with a safe harbor feature) and defined benefit plans.

- **ACP (actual contribution percentage):** This test applies to 401(k) and 403(b) plans and uses an average of the matching contributions made to nonhighly compensated employees to limit the matching contributions to highly compensated employees, on average.
- **ADP (actual deferral percentage):** This test applies to 401(k) and SAR-SEP plans and uses an average percentage of the non-highly compensated employees’ deferral to limit the amount that highly compensated employees may defer on average.
- **Top-heavy:** This test applies to SEP, profit-sharing, money-purchase, 401(k) and defined benefit plans. A plan is considered top-heavy if the total value of all key employees’ accounts is greater than 60% of the total value of *all* employees’ accounts. In this case, the employer must make to the plan a minimum contribution equal to 3% (or the highest allocation made to key employees, if less).

**QDIA (qualified default investment alternative):** QDIAs provide a safe harbor for plan fiduciaries with automatic enrollment provisions and in situations in which plan participants fail to provide investment instructions. By selecting a default investment that qualifies as a QDIA, employers have no liability for market fluctuations when investing on behalf of employees who do not choose their own investments. To qualify as a QDIA, the default investment must be: a managed account, a life-cycle or target date fund, or a balanced fund.

**Qualified trust:** Qualified plan assets must be held in trust. Plan sponsors may choose to act as trustee for the plan or hire a corporate trustee to handle contributions, plan investments and distributions. Use of a corporate trustee by a large plan (generally 100 or more participants) may allow the independent auditor to do a limited-scope audit (lower cost).

**Roth option:** A Roth option may be offered within 401(k) and 403(b) plans. It enables plan participants to make after-tax contributions to their plan and then, assuming certain requirements are met, withdraw the earnings tax-free.

**Vesting:** The process by which a participant in a retirement plan becomes entitled to ownership of the benefit. Depending on the plan’s vesting schedule, participants can become fully vested (own) the benefit immediately or over time (incrementally over no more than six years, or all at once after no more than three years).

# Annual contribution limits at a glance<sup>1,2</sup>

<b>SEP IRA<sup>3</sup></b> <b>(Simplified Employee Pension)</b>	<b>Employer contributions</b> Maximum employer contributions (employee contributions not permitted): lesser of 25% of participant's compensation or \$56,000	<b>\$56,000</b>
<b>SIMPLE IRA</b> <b>(Savings Incentive Match Plan for Employees)</b>	<b>Total contributions</b> Maximum total participant contributions and employer match: \$26,000 (\$32,000 with age-based catch-up contributions and employer match), subject to 3% employer-match limit <sup>4</sup> <ul style="list-style-type: none"> <li data-bbox="422 787 1429 850"> <b>• Participant contributions</b> <span style="float: right;"><b>\$13,000</b></span>              Maximum participant contributions           </li> <li data-bbox="422 861 1429 934"> <b>• Participant age-based catch-up contributions</b> <span style="float: right;"><b>\$3,000</b></span>              Additional contributions for participants age 50 or older           </li> </ul>	<b>\$26,000 / \$32,000</b>
<b>401(k) and 403(b) plans</b>	<b>Total contributions</b> Maximum total participant and employer contributions (combined): lesser of 100% of participant's compensation or \$56,000 (\$62,000 with age-based catch-up contributions) <ul style="list-style-type: none"> <li data-bbox="422 1113 1429 1176"> <b>• Participant contributions</b> <span style="float: right;"><b>\$19,000</b></span>              Maximum participant contributions           </li> <li data-bbox="422 1186 1429 1323"> <b>• Participant age-based catch-up contributions</b> <span style="float: right;"><b>\$6,000</b></span>              Additional contributions for participants age 50 or older; certain 403(b) plan participants may contribute more if they meet length-of-service requirements           </li> </ul>	<b>\$56,000 / \$62,000</b>
<b>Profit-sharing and money purchase plans</b>	<b>Employer contributions</b> Maximum employer contributions (employee contributions not permitted): lesser of 100% of participant's compensation or \$56,000 (up to 25% of compensation is deductible)	<b>\$56,000</b>

<sup>1</sup> When participants withdraw before-tax contributions from their plan, that money is subject to ordinary income tax and, if withdrawn before age 59½, may be subject to an additional 10% federal tax penalty (25% penalty if withdrawn from a SIMPLE IRA within the first two years).

<sup>2</sup> Generally, defined contribution plans have a deductible limit of 25% of eligible payroll. Check with your tax advisor for specifics.

<sup>3</sup> The 2019 compensation limit is \$280,000 when determining maximum contributions for all purposes, except when determining SIMPLE IRA matching contributions.

<sup>4</sup> To receive the maximum contribution, participants must have at least \$433,333 in annual earnings.

**Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in the fund prospectuses and summary prospectuses, which can be obtained from a financial professional and should be read carefully before investing. Tax issues involving IRAs can be complex. Please consult your tax or legal advisor before making any decisions.**

# Our shared commitment

As a retirement plan sponsor, you've made a commitment to helping your employees plan and invest for their financial future. In turn, Capital Group, home of American Funds, and your plan's financial professional are dedicated to helping you deliver on that commitment while making your role as a plan sponsor easier.

With Capital Group, you get a unique combination of strengths:

For more information about us or the plan types featured in this brochure, contact your financial professional.

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## Focus

**100%**

We are wholly dedicated to the analysis, management and servicing of investments that make up a broad spectrum of options for retirement plan participants.

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## Experience

**85+**  
years

A recognized leader for more than 85 years, we are one of the leading mutual fund managers of defined contribution assets (*Pensions & Investments*, 2018). Also, more than 57,000 businesses have selected our retirement plan solutions for their plans.

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## Trust

**\$1.5**  
trillion

With more than \$1.5 trillion in assets under management (as of 12/31/2018), we have earned the trust and loyalty of millions of investors saving for retirement. More than half of our 60+ million investor accounts are retirement accounts.

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